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**Missing the Peace Train in 2006: Economic and political
dynamics of India Pakistan hostility?**

By Dawood MAMOON[†]

Abstract. The paper discusses the dynamics of peace initiatives made by Pakistan in 2006 and their importance in changing the regional dynamics in favour of increased economic cooperation in the light of the study undertaken by Murshed & Mamoon (2007) which has analysed the multiple determinants of conflict between India and Pakistan. The paper highlights the importance of peace in the region especially for Pakistan where the development potential of the country have been stifled greatly due to a long history of political and economic volatility while linking Pakistan's progress with that of its neighbours through conflict mitigation process. The paper also presents the possibility of such dyadic economic and conflict trade off in 1990s where India may have utilised hostilities to curtail Pakistani economic potential to pressurise Pakistan to forego its support of insurgency in Indian held Kashmir. Pakistani peace initiatives in 2006 made the country as a leading factor in South Asia with a valid possibility of determining the pace and potential to realise long sought process of regional progress through greater integration of interests. However, the tangible response from Indian side was not forthcoming leading to loss of opportunities and thus creating a good explanation of Hawkish Indian behaviour 10 years down the time line in 2017.

Keywords. Politic thought, economic dynamics, India, Pakistan.

JEL. D72, F50, F52.

1. Introduction

International economic interactions between nations may involve peaceful trade, or it could be belligerent with reduced economic interaction. Outright war is just one manifestation of the rivalry between nations; the armed peace is equally consistent with aggressiveness. India and Pakistan are a case in point. They have had at least four large scale military confrontations (1948, 1965, 1971 and 1999), but otherwise spend a great deal of time in uncompromising posturing vis-à-vis each other. India, in particular, frequently accuses Pakistan of sponsoring terrorism in her territory. But occasionally they make goodwill gestures, such as sending out peace buses between cities like Delhi and Lahore, and agree to cricket tours. Less frequently, major concessions are made mainly by Pakistan, such as current President Musharraf's willingness to put aside the long standing Pakistani demand and United Nations resolution for a plebiscite to settle the future of Kashmir [Retrieved from].

Polachek (1997) and Polachek & Seigle (2006) argue that wars and disputes between geographically contiguous states involve greater losses, as more efficient geographically proximate trade is displaced. This effect, however, depends on the absence of alternative trading partners, who despite greater distance may be equally or more efficient. India-Pakistan official trade (as a proportion of Pakistan's total international trade) steadily declined from nearly 20% in the early 1950s,

[†] School of Business & Economics, University of Islamabad, Islamabad, Pakistan.

☎. +0092 51 5730280 ext 258

✉. dawoodmamoon96@gmail.com

plummeting to almost zero after their war in 1965, and has shown some signs of recovery in the 1990s. But it is still below the levels of the 1950s, which was shortly after the two nations were separated politically. This is despite the fact that India and Pakistan have fairly open economies at the present. Though, Pakistan has traditionally been more open than India.

The opportunity costs of conflict could rise when countries move to higher stages of economic development as they have more to lose from conflict, and have more resources to negotiate peaceful settlements. For example, the 1990s is considered to be a golden decade for India as on average the Indian economy grew at 5-6% annually. Pakistan has been growing at an average of 6% for the last 3 to 4 years. Traditionally, from the early 1960s up to the early 1990s, Pakistan's was the faster growing economy of the two. In 2006 both countries were in the second most rapidly growing region (South Asia) in the world ([World Development Indicators, 2006](#)). However the below figure also shows that yearly fatality rate (number of deaths in the battle) has been more frequent and at historically higher levels for 1990s and the trend continues up till 2002. Considering 2006 peace talks between India and Pakistan the fatality levels have declined considerably in immediate years.

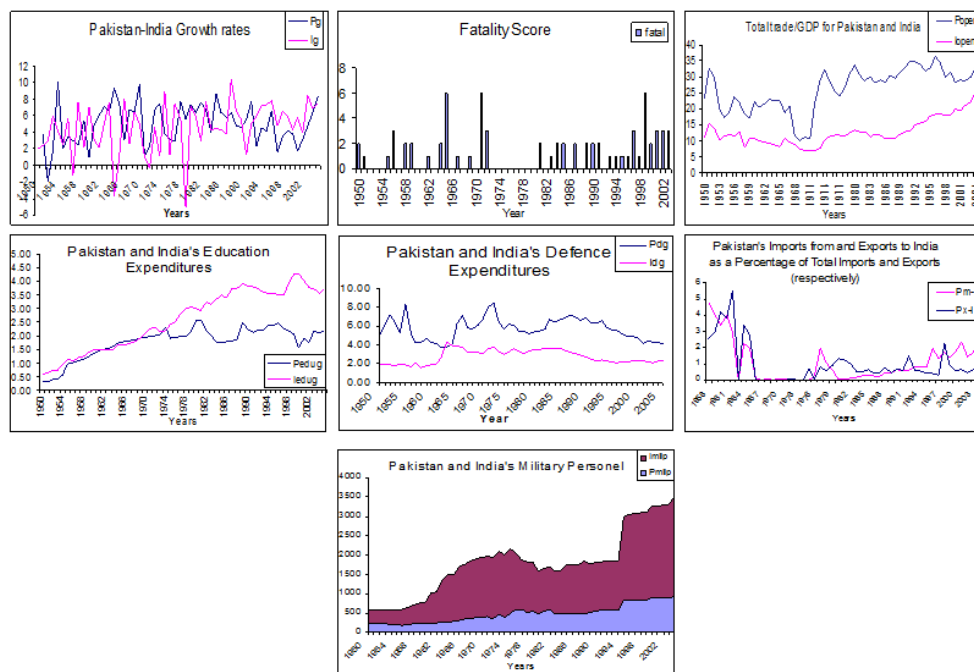


Figure 1. Does economic growth increase the possibility of peace

Furthermore, the above figure also shows that military expenditures tend to move inversely with development (education) expenditure, providing *prima facie* evidence that large military expenditure crowds out development in the social sector. Pakistan's military expenditure is consistently above India's except in the mid-1960s when India had wars with both China and Pakistan. In Pakistan's case, military expenditure as a proportion of GDP has historically been at 5%, but rising during and after its 1965 and 1971 wars with India to as high as 8%. The average defence expenditure of Pakistan is 5.5% of GDP in the 1950-2005 period, whereas for India it is about half at 2.8% of GDP. Since the 1990s Pakistan's military expenditure has been falling, and is now at a little above 4% of GDP, which represents a historical low. As Indian education expenditure rose to 4% of GDP in the 1990s, its defence expenditure fell from nearly 4% of GDP in the mid-1960s to less than 3% of GDP (it has rarely been below 2% of GDP). Pakistan's public expenditure on education is stagnating at around 2% of GDP. An important

observation which can be made from the figure is a sharp rise in military personnel in recent years despite a fall in proportional defence budgets by both sides indicating a rise in militarization by India and Pakistan corresponding to the rise in fatality levels. Here militarization in India has increased at a much steeper pace than Pakistan which may show Indian security concerns or its hegemonic posture in the region. Again note that the figures are available till year 2002. By 2006, due to Pakistan's peace initiatives and its serious efforts to control cross border movement of unwanted personnel at the Line of Control (LOC) has significantly reduced the hostility levels which may correspond to a possibility of fall in militarization in the region.

Nevertheless, as the varying trends discussed above in the determinants of possible hostilities suggest: there is more to India-Pakistan conflict than merely Pakistan's political orientation and a comparison of bilateral economic growth rates. This is because of the fact that despite high growth rates in India and relatively high democracy scores in Pakistan up to 1999, conflict between the countries escalated in the 1990s. By contrast, in 2006 the dictatorial regime in Pakistan with a strong military orientation and therefore historically less democratic, was making major unilateral concessions to India vis-à-vis their long standing disputes over Kashmir. Could that be related to the very impressive growth record in Pakistan? If anything, conflict between the two nations can be best understood in a multivariate framework where the relevant variables and processes (economic performance, integration with rest of the world, trade between the conflicting nations, military expenditure, democracy, and population) are simultaneously taken into account.

2. Lessons from quantitative study by Murshed & Mamoon (2007)

A comprehensive exercise has been carried out by Murshed & Mamoon (2007) to objectively analyze the key variables which would help us understand various overlapping dynamic factors of India-Pakistan conflict. Such an analysis also helps us to devise a successful peace strategy based on its economic and security dividends. A simple time series model was devised and an evolutionary analysis of India and Pakistan conflict from 1950 to 2002 was carried out where role of economic development, integration with rest of the world, bilateral trade, military expenditure and democracy was analyzed to see how these variables may have contributed to the increase or decrease in hostilities between these two nations.

Such an exercise is also important to understand the validity of such single point one sided explanations which may substantiate the blame game of the one side by presenting other side to be more belligerent. For example, it is generally perceived in India that strong hold of army and extended dictatorial rules in Pakistan are a significant source of hostilities. Whereas Pakistan accuses India to have shown belligerence based on its historic hostility dating back to 1948 land dispute in Jammu and Kashmir area which also resulted in the first outright war between both countries whereas each side is now holding up to a part of the disputed land divided by a line of control while each side has been claiming the ownership of the entire area [[Retrieved from](#)].

Murshed & Mamoon (2007) cover more than 50 years of the India Pakistan history, would help us understand whether the dynamics of conflict have been changing since the prevalence of initial hostilities and if so how one can positively exploit these changing dynamics for making a long term peace strategy.

The study shows that initial hostilities resulting from Kashmir dispute has significantly hampered bilateral trade between the two nations. However, we also find that the converse is also true; more trade between India and Pakistan decreases conflict and any measures to improve the bilateral trade share is a considerable confidence building measure. In the short term, greater Indian access to Pakistani markets will help decrease hostilities between the two countries; whereas in the

long run as the peace is achieved, both countries could be exporting more to each other. Lately, there has been a high demand of cheaper Indian raw materials in Pakistani industries. A regional trade agreement along the lines of a South Asian Free Trade Agreement (SAFTA) could enable freer access to the markets of member countries, and has a high potential for the improvement of relations between India and Pakistan on a long term basis. Pakistan and India's degree of openness to world trade is the *dominant* economic factor in conflict resolution. One would imagine that in the counterfactual case of significant mutual inward investment, that too would also decrease mutual belligerent tendencies.

Mamoon & Murshed (2007) also find that Pakistani military expenditure is more sensitive to hostilities with its Eastern neighbor whereas Indian military expenditure is not entirely Pakistan focused as India, the regional hegemon, has other domestic and international concerns to which its defence spending is targeted, besides its disputes with Pakistan. Overall, India may have shown more belligerent behavior towards its neighbor because of its greater military size. For example, India has unilaterally massed troops on Pakistan's borders in 1951 and 2002. Indeed, there is some reverse causality between military proxies and conflict suggesting that Pakistan's military build ups may be more reactive. Furthermore, it is also important to note that Indian part of Kashmir is house to India's largest military contingent active in suppressing insurgency which India accuses was actively supported by Pakistani side. Overall military expenditures are still at high levels in both countries and are diverting scarce resources away from social development spending, such as on education, and poverty reduction. Education spending has been shown to be good for both peace and economic progress. Though one should note here that optimal level of military expenditure depend on level of economic development. At higher levels of economic development military budgets proportional to GDP may fall but in absolute terms they may very well rise. In other words, higher the levels of economic growth, wider would be the range of optimality in military budgets depending on the national and international security situation as more economically vibrant countries may also have more challenges to face as they are taking off to the next stage of economic prosperity. Thus some times arms race may only indicate the up keeping of deterrence between different parties. As in South Asia region, Indian deterrence is responding to Chinese defense capabilities where as Chinese deterrence may have been focused towards international stakeholders like USA while Pakistan may have to keep its deterrence against Indian military capabilities. While each country may keep its minimum self defined threshold level of deterrence, economic cooperation among them may bring them closer to each other where countries work with shared stakes to global economic well being. But to reach any such scenario, a country needs to become a significant part of global economy and any such status can be achieved partly by economically integrating with other economies in the region. Thus irrespective of long term trends in military budgeting, a country may always consider a smart factor division of resources whereby resources are utilized for development in a more effective manner which is to suggest that national budgeting for any set of pre defined alternate years spend more on social welfare while holding onto proportional defense expenditures to some predefined set limits. However any such smart trade offs between development and defense cannot happen under heightened hostilities between neighbors or possibility of any such. In this context resolution of India Pakistan bilateral issues like Kashmir becomes all the more important to achieve sustainable path towards social development in the region while both countries may still retain their respective defense niches to supplement their progressing economic and political status regionally and globally.

In an ideal world democracy between pairs of nations should reduce inter-state hostility according to the democratic peace hypothesis; this relationship in our case is present but weak. Peace initiatives, it should be remembered, are not the sole prerogative of democracies; they can also be made by countries which are less than perfectly democratic out of economic self-interest. Pakistan, in 2006 made

unilateral concessions on many disputed issues with India. Murshed & Mamoon (2007) support the liberal peace hypothesis. Economic progress and poverty reduction combined with greater openness to international trade in general are more significant drivers of peace between nations like India and Pakistan, rather than the *independent* contribution of a common democratic polity. So it is more economic interdependence rather than politics which is likely to contribute towards peaceful relations between India and Pakistan in the near future. In many ways, our finding echo Polcahek's (1997) work across several dyads, where it is argued that democracies cooperate not because they have common political systems, but because their economies are intricately and intensively interdependent. As pointed by Hegre (2000), it is at these higher stages of economic development that the contribution of common democratic values to peace becomes more salient. Meaningful democracy cannot truly function where poverty is acute and endemic, even in ostensible democracies such as India. In the final analysis, it may be that democracy itself is an endogenous by-product of increased general prosperity, as suggested nearly half a century ago by Lipset (1960). Then and only then, will nations be able to fully comprehend Angell-Lanes' (1910) arguments regarding the futility of inter-state conflict.

In 2006, there was lot of uncertainty on both sides for any significant change in India-Pakistan relationships despite Pakistani regime's bold decision to re evaluate its traditional stand on Kashmir as well as using bilateral trade as a confidence building measure. Some in Pakistan feared that peace initiatives like reducing tariffs for Indian goods would mean greater dependency on Indian produce. Taking into account the historically high hostility levels between two countries, any peace initiative or confidence building measure which leads to more market access to India is viewed with scepticism in Pakistan, as many fear that dependence on India may expose Pakistan to unnecessary pressures from India, and make it vulnerable to one sided solutions to the Kashmir dispute. Our analysis shows that in the long run the dependency on Indian cheap goods would actually decline and both countries would end up being equal trading partners. Thus more bilateral trade, far from creating any power imbalance between India and Pakistan, would equally distribute the gains. Pakistan may also fulfil its import needs more from the other developing countries such as China.

However, Murshed & Mamoon (2007) presents some evidence of competition between India and Pakistan to trade with the rest of the world as our findings suggest that hostilities with its neighbour has a greater negative effect on Pakistan's trading capabilities when compared to India. Hostilities on its Eastern border areas has over the time limited the scope of Pakistani domestic markets to effectively benefit from outside competition despite the fact that Pakistan is traditionally a more open economy. Though with peace, trade with rest of the world would increase for both countries in the short run, in the long run Pakistan would benefit more than India because of its greater openness and Indian trade would decline if India does not open up its economy further. In 2002, when Pakistan found some breathing space after a decade long economic crunch, which the country found itself into since late 1980s due to a mounting debt burden amid international sanctions, and as it was managing to benefit from international markets as sanctions were lifted for its cooperation in the War on Terror, an army build up by the Indian side on Pakistani borders, the largest in history, may show that India has used hostilities to offset Pakistan's economic capabilities. Though negative effects for Pakistan have been greater, continued level of heightened hostilities also carried negative effects for India. For example, figure presented above show a dip in terms of trade of both countries in year 2002, where Pakistan's terms of trade witnessing a deeper plunge due to Indian military build-up on its borders.

Murshed & Mamoon (2007) also find that peace is not only good news for the economy, it is also good for security capabilities of both nations as decrease in hostilities would increase the efficiency of national defence apparatus of both countries in the longer run, as we find that both countries would decrease level of

militarization while may still incur higher defence expenditures only at higher levels of GDP to import high end technology military imports much like developed nations who keep smaller but well equipped armies. Though, such long run scenario is based on the assumption that Kashmir dispute would be solved.

May be a similar vision of economic and security prospects of peace have motivated Pakistani side to take peace initiatives when President Musharraf had become the first Pakistani leader to show some flexibility in solving Kashmir dispute while showing willingness to set aside Pakistan's traditional demand of plebiscite in Kashmir and Jammu region; a demand which has always been rejected by the Indian side for last 30 years or so. Pakistan has proven to have made a genuine effort towards peace in the region where they had also decreased tariffs on number of Indian products. However how India has undermined Pakistani peace initiatives by its continuous lukewarm response is matter of another debate as it appears how international community fairs with Pakistan in future matter for Indian policy towards Pakistan a lot. In this context, it can be suggested that India is playing an old game where it is buying its time out of peace yet again as it did in 1970s when after East Pakistan debacle, India back tracked on its commitment over plebiscite in Kashmir and eventually won over the argument at least on international forums where now a days indeed any demand of self determination of a segment of Kashmiri population out of a economically prospering nation like India seems an unconvincing argument especially under an international economic wisdom which is in favour of globalisation.

There is also evidence that in 2006 Indian army did not share the same enthusiasm as was shown by the government of Indian Prime Minister Manmohan Singh. For example early this year on 8 January 2007, Indian army by going against their government line came out in the local media strongly opposing any consideration by Indian side to the proposal put on table by Pakistan to administer Jammu and Kashmir in a joint management framework to further curtail down hostilities:

A spokesman of the Army here stressed that there could not be a joint management between a military dictator of Pakistan and a democracy like India. The spokesman described "joint management" as a "dangerous proposal" because it would dilute India's control on two-thirds of the original state of J and K. For the first time the Army has come out against the much-hyped proposal of Pakistan with the spokesman saying that Pakistan is toying with the idea of an "out-of-box" solution called "joint management" of the J and K state, but it was dangerous for India. [[Retrieved from](#)].

Quite interestingly, on December 2006, Prime Minister Manmohan Singh asked both sides to forget about the past in favor for an optimistic future as he rightly realized that the destinies of both nations are intricately interconnected. A day before the statement came out, Pakistan decreased tariffs on a significant number of main Indian goods imported to the country, which could have easily been took as an indirect indication of giving India a status of most favored nation. It makes an insightful observation then that few days later in January 2007, Indian army leadership would undermine the whole atmosphere of peace building by an uncalled for press statement while also making a political comment by referring to the prevalent governance structure in Pakistan. This may suggest either lack of Indian sincerity towards peace building in the region or it may indicate that Indian army may have a Kashmir or Pakistan policy which is somewhat exogenous to what is being planned out in the Indian Prime Minister secretariat and thus seriously undermine the effectiveness and credibility of the Indian government to carry out its own foreign policy yet again questioning the fundamentals of Indian democracy.

3. Cross border challenges for post 2008 democratic Pakistan

The tensions between India and Pakistan have been escalated amid global financial crises and relative plummeting of growth rates in both countries.

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Currently hostilities are at the highest for the last 15 years or so. The talk of surgical strikes within Pakistani borders is common talk across the border. Pakistan is maligned by India in international forums frequently and even at prime ministerial level. SAARC summit in Pakistan was cancelled last year due to the boycott of India. While the air of confrontation is happening actively from the Indian side, unrest in Indian held Kashmir has been at its peak not seen since the advent of 21st century. From the Pakistani side, the two successive democratic governments of Pakistan People's Party and Pakistan Muslim League Nawaz are trying hard to bring India to the negotiation table but with little success. A docile reaction to Indian war mongering has created many rifts between civil military relationships in Pakistan. The current geo political situation in South Asia is mired with uncertainty due to worsening Pakistan India relationship. As rightly pointed out by Murshed & Mamoon (2007), democratic orientation has a very limited role to play in bringing India and Pakistan closer to peace as suggested by the recent history of the subcontinent. If any, economic success on account of both countries would create an environment where India may respond to Pakistan's peace initiatives. India has missed the 2006 peace train. The discussion in above sections and in light of Murshed & Mamoon (2007) analysis suggest that India has been trying to find ways out of peace. The only deterrence for Pakistan to extreme hostile action or high level of hostilities from across the border is a strong military posture from the Pakistani side. It is in Indian interest to weaken that posture to dominate regional politics and economics. The domestic political and social issues are a clear handicap of Pakistan to take up a road to sustainable and stable democratic path. Constant hostilities emanating from the Indian side is not helping the situation in favor of democratic governments of Pakistan. Such is the challenging situation despite a dovish stance of incumbent political party PML N towards India. This provides a circumstantial evidence that India has hijacked the peace within South Asia and is ready to miss opportunities of peaceful solutions to bilateral disputes in the future also.

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